

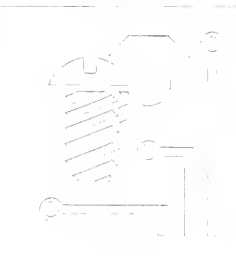
Montana  
Governor's Council  
of Economic  
Advisors  
Annual Report  
and  
Recommendations to  
the Governor

# Annual Report and Recommendations to the Governor

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The Governor's Council of Economic  
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January 1979

## **The Governor's Council of Economic Advisors**

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January 15, 1979

The Honorable Thomas L. Judge  
Governor, State of Montana  
State Capitol  
Helena, Montana 59601

Dear Governor Judge:

Herewith is the first annual report of the Council of Economic Advisors. In your Executive Order 19-77 by which you created the Council and which is appended to this report you charged the Council with submitting an annual report to you covering a review of its activities during the preceding year and a summary of its recommendations as to how state government can best serve the interests of Montana's private economy.

Apropos of these responsibilities our report includes a statement of proposed economic goals for the state. These goals include: (1) promoting greater diversification in Montana's economy, (2) acquiring greater control of external events which affect our state, (3) maintaining employment at a level sufficient to provide jobs for all those who desire them, and (4) reaching a level of income growth at least equal to the national norm. We realize that the advantages of living in Montana are measured not only in economic terms but also in terms of the quality of life we enjoy. Accordingly we believe our recommended economic goals must be carefully balanced with environmental considerations.

Since its creation a year ago the Council has discussed dozens of issues at the seven meetings it held during the year. The Council also reviewed loan applications submitted by small business firms seeking financial assistance through the Montana Small Business Loan Program. The Council also went to Libby for a two-day meeting concerning Montana's forest products industry. Timber management problems and uncertainty over wilderness area designation were among the issues discussed at that meeting. The Council listened to representatives reflecting many points of view as it undertook to understand the issues and formulate the recommendations which are contained in this report.

In addition to recommending proposed economic goals for the state the Council also surveyed several aspects of Montana's private economy. These surveys and recommendations flowing from them are included in this report. During 1979 we will survey other components of Montana's economy and will make recommendations for your consideration.

We hope that you find our work this first year to have been of assistance to you and that our recommendations should be implemented by state government.

Very truly yours,

  
Ross W. Cannon  
Chairman

# ***Preface***

**T**he majority of Montanans are environmentally minded, placing a high value on Montana's abundant natural resources and untroubled way of life. For a great many of us, it is this way of life that makes us wish to remain Montanans.

We do not desire crowded, smoke-filled industrial areas for the state, with the excessive problems that accompany them. We do desire, however, to temper our environmental policies and rule making with common sense, aware that jobs and decent living wages must be provided for our residents. The pendulum must not swing so far that Montana's legitimate opportunities for balanced growth are precluded, resulting in diminished economic vitality, loss of population, and reduction in necessary social services.

# Contents

	page
<b>Introduction</b> .....	<b>3</b>
<b>Proposed Montana Economic Goals</b> .....	<b>4</b>
<b>Development of Primary Industry</b> .....	<b>5</b>
<b>Agriculture</b> .....	<b>8</b>
<b>The Mineral Industry</b> .....	<b>10</b>
<b>The Wood Products Industry</b> .....	<b>12</b>
<b>Tourism</b> .....	<b>14</b>
<b>Conclusions</b> .....	<b>16</b>

## Introduction

The overall welfare of any locality, state, region, or nation is closely tied to its economic performance. Therefore, it is important that both private and public decision makers be fully aware of economic issues and events. The purpose of this report is to provide recommendations to the Governor and to the Legislature as to how we as Montanans might improve the economy of our state. The report is nontechnical and represents the legitimate concerns and suggestions of the wide variety of individuals who serve on the Governor's Council of Economic Advisors.

Before turning to the policy recommendations, it would be useful to very briefly review the nature of Montana's economy. As we all know, Montana's economic role has been largely one of providing raw materials to the national marketplace. That is, the economy of the state has been resource-oriented, so the importance of manufacturing products for final consumption has been relatively low. Several of Montana's primary industries have experienced significant declines in employment within the last 20 years. The jobs lost have been jobs paying higher salaries or wages. We must avoid if possible any further reductions.

Like most areas of the nation, nearly all employment growth and most income growth in Montana has been found within the service, trade,

and public sectors (the so-called "derivative" sectors). This growth has created jobs and income and has advanced society. It is the existence of our primary industries, however, which allowed this secondary growth to occur. As a result, we are deeply concerned about the future of the primary sectors such as agriculture, mining, timber, tourism, manufacturing, and rail transportation.

When compared to earlier periods, Montana's economic health is sound overall. For the first time employment growth has been sufficient to halt declines in population through out-migration, which long plagued the state and required many young and talented people to leave. Per capita income, however, has consistently lagged behind national standards. Although 1978 appears to have been a banner year for the state as a whole, our agricultural, timber, mining, and transportation industries present perennial problems. National farm policy, the energy debate, RARE II, and rail service reductions must be watched with constant vigilance.

Unfortunately, many of the issues which we face today find their origins outside of Montana, in events over which the state has little control. No simple solutions exist in such complex situations, but Montanans should ensure that their input is made known when the health of the vital basic industries is at stake.

# ***Proposed Montana Economic Goals***

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Employment and economic survival are surely priority considerations in any discussion of Montana's economic goals. Without jobs and decent pay, there is no room to indulge in a discussion of quality of life. Yet, Montana's economic activity cannot be measured exclusively in terms of jobs and income. The success of our economic activity will be measured by its ability to increase the satisfaction people derive from life in Montana. Such satisfaction encompasses the entire range of human needs, from decent employment and the necessary income to feed and care for a family to the means to enjoy leisure time away

from the job. In some cases, there is not necessarily a positive connection between economic activity and these needs. But some types of economic activity can promote the satisfaction of human needs and, hence, are especially desirable.

In Montana, the satisfaction of human needs includes a special dimension: the preservation of what has been called the Montana lifestyle.

Four physical attributes of Montana provide the foundation for the qualities of its lifestyle: the richness of its natural resource endowment, the large scale of the Montana landscape, the low density

of its population, and its remoteness from major centers of population. These aspects of life in Montana are what distinguishes Montana from much of the rest of the United States.

Life in Montana proceeds at a calmer pace than in other parts of the United States, with a lower level of pressures placed upon individuals by society, and a higher degree of community identity and individual self-sufficiency. For all these reasons, Montanans continue to have a wider range of options concerning the future of their state than people elsewhere. This freedom of choice is highly advantageous.

## ***Overall Goals for Montana's Economy***

Within this framework of values, it is possible to outline a series of goals for the future of Montana's economy.

### **Employment**

1. To provide meaningful employment for every Montana resident desiring work.
2. To increase or change the diversity of work opportunities within the framework of values as outlined above.
3. To increase the diversity of employment arrangements.

### **Income**

1. To provide a satisfactory level of per capita income for all Montanans.
2. To increase the proportion of the profits from Montana economic activities which are returned to Montanans.

### **Sustainability and Renewability**

1. To minimize the unfavorable environmental impacts of economic activities.

2. To conserve all resources by increasing the efficiency with which they are used.

3. To promote and stabilize those economic activities such as agriculture and timbering that are based on a sustainable renewable resource.

4. To encourage the long-term sustained production of the mineral industry within the framework of Montana reclamation and mining laws.

### **Diversity**

1. To increase the diversity of Montana's economic base within the framework of values as outlined above.
2. To encourage greater processing of Montana's raw materials in Montana to provide more jobs for Montanans.
3. To encourage the manufacture in Montana of products now being imported.
4. To promote more even geographic distribution of economic activity.

### **Control**

1. To increase the extent to which economic decisions affecting Montana are made by Montanans.
2. To increase citizen participation in Montana's economic decision making.
3. To streamline bureaucratic procedure as it relates to business and economic development.

### **Other**

1. To promote community independence and stability.
2. To be concerned about the rise in the cost of the basic necessities.
3. To increase public awareness and understanding of Montana's economy.
4. To educate Montanans as to the benefits and costs of economic development in order to improve the quality of public policy decisions concerning the expansion of economic activity.
5. To develop effective procedures for planning as an integral part of present and future economic policy.

# Development of Primary Industry

The development of Montana's economy depends greatly on the strength of the state's primary industries, that is, the businesses such as agriculture, lumber and wood products, mining and refining, tourism, manufacturing, oil and gas extraction, heavy construction, and rail transportation which export goods from Montana and/or generate a flow of dollars from outside the state. The incoming dollars, in the form of paychecks and profits, provide the cash to purchase goods and services from the state's secondary or "derivative" industries: the grocers, clothiers, builders and other tradesmen, bankers, lawyers, and health care professionals who we commonly think of as the state's business, trade, and professional community. The Council strongly recommends that state government take an active part in strengthening the environment for all businesses in Montana, whether primary or derivative, and that emphasis be given to diversifying primary industry in Montana's local economies.

## **Montana should maintain a policy of:**

Ensuring that the population is not reduced by out-migration from Montana.

Ensuring that employment opportunities increase to keep pace with population growth.

Ensuring that income levels keep pace with the national average.

## **The State of Montana must embark on aggressive policies of developing primary industry in Montana which:**

Take into account the attitudes of Montanans, either directly or through their elected representatives.

Ensure that those attitudes are made known to national, state, and local decision makers.

Take into account, to the appropriate degree, all reasonable economic and environmental concerns.

Provide the means, including dollars, to foster an appropriate business climate.

## **In order to maintain the stated policies, an aggressive policy for the development of primary industry in Montana would have the goals of:**

Protecting existing primary industry.

Diversifying urban and rural economies, now overly dependent upon one or a small number of primary industries forming their industrial base. If those industries fail, so does the economy of that area.

Seeking intensified manufacturing and processing of raw material in Montana before the state's products are exported (packing plants, wood products manufacturing, agricultural processing, etc.).

Encouraging the location of new primary industry in the State of Montana.

*Big Bud tractor assembly line in Havre. Locating more manufacturing operations in Montana is a way to diversify local economies.*



*Photo courtesy of the Big Bud Tractors, Inc.*

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# Specific Conclusions and Recommended Actions

## Government Regulation

**Conclusion:** There is serious concern in Montana as to whether state and federal regulations have, through their quantity, complexity, and method and manner of enforcement, contributed to inflation and been responsible for fewer jobs.

**Reasons for Conclusion:** It is clear that regulations add to the cost of doing business and that this cost is ultimately passed on to the consumer in higher prices. Jobs may, in fact, be eliminated and industries may not approach Montana that otherwise would have been attracted. Although there is a necessity for specific regulations and their enforcement, there is widespread concern that the quantity, complexity, method and manner of enforcement of those regulations are adversely affecting jobs, comparative income levels, inflation, and the net economic growth of Montana.

**Recommended Action:** It is recommended that, consistent with the overall conclusion of this report and with specific reference to air quality standards, environmental protection standards, and state standards for major facility siting, the State of Montana:

Survey the extent of the adverse effects of current regulation on jobs, inflation, and population.

Require the State of Montana and relevant agencies to affirmatively assist industry in its compliance with required regulations and to affirmatively minimize the economic impact of such regulations. This can be achieved by, but need not be limited to: 1) the drafting of regulations in ordinary English, with proper notice, 2) sufficient time for compliance, 3) a uniform policy as to the level and nature of enforcement, 4) not establishing retroactive rule changes once business has set out to comply with the previous, existing standards.

## Government Taxation and Funds

**Conclusion:** There is serious concern in Montana whether state taxation and funding policies are aggressive enough to fulfill the goals stated in the overall conclusion of this report.

**Reason for Conclusion:** Government funds and the level and type of taxation can be a benefit or a burden to the maintenance of current industry or the development of new industry. A state government devoted to the fulfillment of the goals and policies set forth at the beginning of this report must be prepared to use the tools of government to achieve those goals.

**Recommendations:** The State of Montana should undertake a survey of other states to determine the various methods used to protect current industry while promoting new industry through the use of government funding and the levels and types of taxation.

With respect to the promotion of new industry and the protection of current industry, the State of Montana specifically should consider:

The deferral of property and perhaps other taxes during the initial years a new business is trying to get established. If an area did not have the new business to begin with, it will not miss the additional tax revenue the first few years, but by using this incentive will attract new business which might otherwise settle elsewhere.

Allowing the use of investment tax credit and accelerated depreciation laws similar to those of the Internal Revenue Code.

Stimulating the use of Industrial Revenue Bonds by, if feasible, the issuance of state guarantees of these bonds.

That in all cases, prior to expenditure of state or federal funds, it first be determined whether the state should perform a given task or whether it would be better performed by the competitive private sector. Expanding private business is more important to Montana than expanding the size of government.

The State of Montana should adopt a more aggressive policy of seeking out available funds for direct use in priority areas or that can be channeled into a state-controlled industrial development fund, to be used for direct loans, loan guarantees, or direct equity investment.

The State of Montana should publish a business development newsletter, including a compendium of state, federal, and private-sector programs available to assist new or expanding firms, including those of the Small Business Administration, Economic Development Administration, Farmers Home Administration, Center for Innovation, Governor's Office of Commerce, Montana International Trade Commission, and Old West Regional Commission.



## Employment and Unemployment

**Conclusion:** There is widespread concern that insufficient attention is paid to the question of unemployment as opposed to employment.

**Reasons for Conclusion:** Implementation of any or all of the recommended actions of this report should directly increase the amount of available jobs in Montana. However, this does not warrant the conclusion that unemployment will decline past a certain level as more jobs become available. Attention should be specifically focused on the question of the employable unemployed.

**Recommended Actions:** The State of Montana, in focusing its attention on the creation of new jobs, should take into account the unique seasonal nature of the Montana labor force. Policies should be adopted that would reduce unemployment by:

Investigating the appropriateness of incentives, both monetary and otherwise, to employ the employable unemployed. Unemployment and welfare programs should be structured so as to utilize, to the maximum extent possible, the recipients of these benefits in both private and public employment.

Taking into account the fact that Montana's unemployment rate is, on the average, higher than that of the nation because of seasonal factors, Montana should adopt specific programs to adjust for seasonal unemployment by providing forms of alternate employment that offset seasonal patterns.

## Transportation

**Conclusion:** It is suggested that there is an insufficient transportation policy as it relates to the aggressive development of primary industries in Montana.

**Reasons for Conclusion:** The topic of transportation and its interrelationship with the aggressive development of primary industry in Montana is complex. The public does not have readily at hand the concepts and goals needed to understand the role of transportation in an aggressive development effort.

**Recommended Actions:** That the State of Montana intensify its efforts in establishing a transportation policy with centralized planning directed at industrial and agricultural needs. This function should have as one of its major goals the protection of existing transportation facilities and the creation of additional transportation facilities for Montana, whether they be highways, railroads, air transport, or pipelines. Such a transportation policy, were it in effect today, would be supporting continued rail service in the Milwaukee Road service area, the Northern Tier Pipeline, the availability of rail cars, low freight rates, completion of the interstate highway program, and improved rural roads by systematic replacement of dangerous old bridges.

Examination should be made of transportation companies' pricing philosophies and their effect upon rate setting. It is cautioned that any market strategy which places a greater value on processed products versus raw materials works to the disadvantage of the economic development goals of the state, i.e., the goals of intensified vertical integration and intensified processing of raw materials within the state prior to export.

## Other Areas of Concern

**Conclusion:** Full exploration is needed of other available opportunities that will tend to promote the development of primary industry in Montana.

**Recommended Actions:** It is recommended that additional time and effort be devoted to finding innovative methods of attracting appropriate industry to Montana and maintaining that which is already here. Some areas of further study could include, but are not limited to, the following:

Determination of which products now manufactured within the state can become, through the creation of new industrial facilities, a means to further processing prior to their export from Montana.

An analysis of the common industrial location factors, such as transportation costs, labor costs and availability, taxation, and utility rates, to determine the kinds of major industry with a high potential of location in Montana. Special promotions should then be aimed at these industries.

Encouraging the multiple use of public lands for Montana's economic benefit.

Targeting of specific projects and facilities for further encouragement or aid such as the MHD (Magnetohydrodynamics) Facility, NCAT (the National Center for Appropriate Technology), and the Center for Innovation.

Determination of the availability of funds for use as equity capital in the organization of manufacturing and processing enterprises in connection with products developed in Montana. Funds also could be provided for loan guarantees to induce commercial lending institutions to provide the operating capital for those businesses wishing to engage in productive use for by products of present mining, smelting, and manufacturing facilities.

# Agriculture

Agriculture is Montana's largest industry. As world markets grow increasingly aware of Montana's potential for food production, there will be opportunities for increased capital investment and increased processing of Montana products prior to export. But greater export demand will confront Montana producers at a time when they are faced with several serious problems:

Simultaneous calls for greater utilization and conservation of limited resources — land, air, and water.

Continuing threats to the economic viability of the small- and medium-size producer.

Increased interdependence among states, with the threat of greater federal, corporate, and urban influence and a consequent centralization and standardization of policy.

In view of these opportunities and problems, the difficult task is not only to identify the potential directions of Montana agriculture, but also the actions Montanans must take to ensure a competitive edge for this primary economic sector.

## Profile of Montana Agriculture

Census estimates have recorded 23,000 farms and ranches in Montana. The average farm and ranch consists of 2,600 acres. Nationally, farmers make up less than 4 percent of the population. Over 60 percent are classified as small farmers.

In 1977, Montana ranked fourth in U.S. barley production and sixth in wheat production. Montana's five leading 1977 cash crop receipts were 1) livestock, 2) wheat, 3) barley, 4) hay, and 5) dairy. 1977 wheat receipts decreased from 1975 by nearly 12 percent while government payments significantly increased in 1977.

Montana's cattle industry functions in a competitive supply-demand market involving primarily domestic consumption. There is deep concern about the economic impact of meat imports. The grain producer sells to a world market, with government programs and policy significant to his well-being. In both cases, U.S. trade policy can have an impact on the profitability of Montana operations.

To the extent that federal government regulations and general economic conditions encourage the capital-intensive, high-volume, high-technology, and management-intensive producer, the commercial farm will grow larger and there will be fewer land owners.

## Trends

Due to developing markets at home and abroad, yields, production, and cash receipts have increased. As cash receipts and production expenses have increased for the producer, net income has been stable. It can be projected that potential cash receipts in Montana could reach two billion dollars annually by 1987.

Employment may continue to decrease at the production level.

World food demands will increase and can be supplied.

Supply will come from nations and states with a strong competitive agriculture sector.

For Montana to realize this potential, we should undertake actions which will:

Increase yields

Permit more irrigated land

Seek improvements in marketing and transportation

Enhance capital availability

Maintain reasonable taxation levels, and

Expand research and innovation in ways which will increase the competitive strength of Montana farmers and ranchers. To that end, specific recommendations follow.

## Transportation

Transportation is basic to all economic development and of primary importance to agriculture. All sectors of the economy need reasonable rates, good service, and an efficient and integrated transportation system (rail, highways, and air). Several important needs exist:

The executive branch should develop a comprehensive state transportation plan.

The Legislature should appropriate matching funds for adoption of Phase Three of the 4R-Planning Act. With the high cost of road construction, excessive construction standards for farm-to-market roads should be re-evaluated. More reasonable standards would allow more roads to be improved.

The Legislature should provide adequate state funds to match federal road funds. The administration should work to prevent federal funds for rural roads from being diverted into urban mass transit systems.

## Alien Ownership

The question of alien ownership of agricultural land requires close investigation by the Montana Legislature. Currently no information is available to determine the extent of this problem. Like corporate ownership, alien ownership can pose a real threat to the existence of the small- and medium-size producer.

## Water

Montana's water demands, including those for agriculture, are critical. Rights to Montana's water should be determined as expeditiously as possible.

There is a significant potential in Montana for increased irrigation of agricultural land. All types of irrigation should be encouraged, including irrigation of public lands. Personal property tax incentives for sprinkler irrigation and similar systems should be extended. A one-time tax would be appropriate to replace the personal property tax on irrigation equipment.

## Cost of Regulation

Excessive regulations result in added costs, inflation, less employment, and inefficient allocation of resources.

All regulations, existing and proposed, might require economic impact statements.

The Legislature, rather than the regulatory agencies, might establish objectives and standards for all regulatory programs.

## Production Development

The Governor's Office of Commerce and Small Business Development should foster and should encourage development of agricultural business in Montana, including increased processing of agricultural products in Montana. The Montana Livestock Cooperative, which will offer an alternative market for Montana stockgrowers, deserves producer support. Reduced export barriers into Japan are necessary.

## Subdivisions

Agriculture and subdivisions are extremely competitive and create mutually exclusive land use with resulting conflicts. Regulations alone do not answer land-use problems. What is needed is an adequate land-use inventory and planning process. The process will require cooperative efforts by all concerned: environmentalists, land developers, state administrators, ranchers, and legislators.

## Research and Innovation

To remain competitive and increase their profits, Montana farmers and ranchers must have access to a broad range of production and marketing alternatives. While the farmer and rancher bear the major responsibility for research and innovation, the responsibility is shared by other commercial interests, agricultural organizations, state government agencies, and the university system.

Despite a significant degree of government regulations and control, Montana agriculture remains a market-oriented industry. Its goals are greater competitive strength and, ultimately, higher profits. Its concern for better, lower cost transportation, adequate water for irrigation, new crop varieties, and more efficient livestock are best understood in light of these two central goals.

*Photo courtesy of the Montana Travel Promotion Unit.*



# The Mineral Industry

The Montana State Seal appropriately presents the words "oro y plata," gold and silver, as well as the tools of a miner. To this day, mining, Montana's first manufacturing industry, still remains its largest. The mineral sector is also the largest industrial taxpayer in the state and retains its ranking as the state's highest paying industry. Although mining employment has significantly declined since data were first gathered, future prospects for the industry look good. In fact, mining is currently the fastest growing industry in Montana.

## The Gross Proceeds Tax

Industry spokesmen identify the Montana Gross Proceeds Tax, passed by the 1977 Legislature, as one of the greatest problems facing the industry today. The Gross Proceeds Tax represents a tax on the market or end value of the product. In practice, it is often a tax on metals extracted in Montana but refined and smelted outside Montana and occasionally even outside the country. If a similar tax were levied on agricultural products, wheat farmers would be taxed on the milling of wheat and the baking of the bread that comes from the wheat. A mining company may sell silver, gold, selenium, and tellurium in unrefined and unsmelted form, but be required to pay taxes on the market value of the end product. Industry spokesmen indicate that this same tax, if applied to an iron mine, would result in a tax of 96 cents per ton. When coupled with the four other taxes levied against the ore, iron extraction at a profit in Montana is not feasible. Since Montana has an abundance of iron ore, this example, while hypothetical today, may be quite real in the future, causing a loss of potential jobs and industry within the state.

*The Montana Museum of Mining in Butte is reminiscent of the state's colorful past in gold and silver, but it hardly tells the significance of today's mineral industry.*

## The Hard Rock Mining Law

Montana's Hard Rock Mining Law also creates an element of uncertainty for the mining industry. Some key wording is vague, and, thus, open to a wide variety of interpretations.

The Hard Rock Mining Law also is intended to help the small miner. As the law is interpreted today, however, any small miner who must build a road to his facility in excess of one and one half miles is treated exactly as is the largest mining company in the state. The miner loses his small-miner status if disturbed ground totals more than five acres.

Furthermore, to build the road on either state or federal land, the miner must build to agency specifications, i.e., an all weather road that later may be used for logging, fire protection, or recreational purposes. The miner cannot reclaim this ground even though he bears the expense.

There are several other mining regulations which, in the eyes of the industry, are perplexing if not unnecessary. For example, phosphate mining is regulated under a law for open pit mines, yet Montana's largest underground operation is a phosphate mine. By the same token, uranium, also covered by an open pit law, can be extracted only by vein-type mining procedures.

*Photo courtesy of the Montana Travel Promotion Unit.*



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## **Recommendations**

What can be done to help the mining industry? The Council would urge improvement of the present laws and the administration of those laws. For example, some minerals have four direct taxes on the same pound of ore, requiring as many as four bonds on the same property. These bonds are expensive.

State laws and regulations should be better researched and the language simplified. Such an improvement will require a greater number of technically advanced, professionally trained staff. At present the state has only one mining engineer on its payroll.

The state must seek out and employ well trained and experienced professionals, so that when a facility is inspected, it is inspected by an individual with more than a superficial knowledge of mineral extraction. The state should offer a pay scale high enough to attract and maintain qualified inspectors and reclamation personnel. When an inspection is made, it is often the case that the inspector cannot offer suggestions as to how to overcome mining or safety problems. He is empowered only to seek out violations and issue citations. The industry's position is that it supports the review process through its taxes, yet very few of the tax dollars generated by its members find their way back to help the industry prosper.

State and federal mining regulations also should be made compatible so that one inspection is sufficient. Or, one agency or the other might be made responsible, but not both. The present duplication of state and federal inspections serves no purpose.

In the last year several meetings have been held between the Department of State Lands, the Montana Mining Association, and various environmental groups. The result of these meetings is that legislation is to be introduced which will amend and clarify various parts of the Hard Rock Mining Law. The Council of Economic Advisors requests that the Governor lend his support to these changes.

In addition, the Council recommends that the Governor charge a single office with the responsibilities of streamlining the permit process and facilitating new ventures. Thus, one request to a single agency or office responsible for all permits would be all that is necessary.

The recommendation is made to the Governor that he lend his support to a planned expansion of the Montana Bureau of Mines and Geology. Funds to expand the bureau might come from federal revenue returns from rental and royalties on public lands. The bureau is charged, under the law that established it, with promoting efficient development of Montana metals, non-metals, coal, oil, gas, and underground water supply. It would be only fair to the people of Montana to continue to develop this industry, which carries a major portion of the tax burden. If this industry were not to continue to grow, its portion of the tax burden would be shifted to other industries and to the individual taxpayer in the state.

The Council supports and encourages orderly development of the state's coal resource in accordance with Montana law. This sector alone contributes nearly \$50 million a year to the state treasury and provides more than 1,000 jobs. The land, once mined, is returned to its former state as required by the state's reclamation laws. The reclamation activities themselves are a source of numerous high paying jobs.

# The Wood Products Industry

A study of the economic potential of the timber resource in Montana is tied directly to the action taken in the proposed management policies of the federal timberlands. A resolution of the RARE II review is vitally needed to establish the volume of timber to be released for lumber production. In most of the timber areas in Montana, federal ownership is the predominant one and often the major source of raw material for many of our mills.

This heritage of a vast forest cover gives us a renewable resource, generous in its benefits yet also coupled with innumerable challenges and gigantic responsibilities. How we decide the values is our problem.

In this report, the Council tries to establish goals through an evaluation of our objectives and submits recommendations designed to establish a workable program meeting as many of our needs as possible.

## Goals

To increase the job opportunities and increase the economic base for the forest industries in Montana consistent with good forest management policies whether private, state, or federal.

To determine the status of all federal forest lands so that the proper management program may be established, whether it is to be managed for wilderness or timber production.

To intensively manage all productive forest lands, thereby increasing the growth factor per acre, giving us better utilization of our forest resources.

To eliminate losses on forest lands by salvaging such timber losses as decadent trees, windthrown, diseased, fire-killed, and trees of poor risk.

To increase the availability of recreational opportunities in our National Forests through proper maintenance of trails, campgrounds, roads, and special facilities.

To protect all forest areas from their natural enemies — fire, disease, insects, and storms, including, when appropriate, by harvesting.

To clarify the gross misunderstanding of terms used in defining the various management programs assigned for care of forest lands.

*Intensive management practices on the ground and sound management policies in federal offices are the keys to the future of this important renewable resource.*



## Recommendations

The allowable timber harvest is the volume of timber grown annually. We recommend that the Forest Service document and explain to the public that the allowable cut figures are based on current updated information. It is essential that this volume, based on the principles of multiple use and sustained yield, be removed to promote the growth of younger trees and keep the forest in a healthy condition.

It is fully documented that through intensive management of our most productive sites, we can more than double the production from Montana forests and thereby make more raw material available for an increased allowable timber harvest. Intensive management includes thinning and the removal of salvage material from the forest. This value is lost when the intensive program is lacking.

We recommend that the Governor support the multiple use/sustained yield concept as it applies to our national forest lands. We must ensure that the five mandated multiple uses of the national forests — timber, recreation, fish and wildlife, watershed, and grazing — are maintained on a sustained basis.

We recommend a complete and fair analysis of wilderness classification as it relates to a healthy forest. State government should portray clearly for Montana citizens the tradeoffs involved in the wilderness development debate.

We believe the Governor should bring to the Western Governors' Council a recommendation that all commercial forest land lending itself to intensive management be so managed and that an immediate program be initiated to.

Support thinning projects where economically justified.

Support salvage of all dead, diseased, and down timber.

We recommend that the Governor request of the Carter Administration that the RARE II program be completed on time without delay.

We believe that roads in the National Forests are greatly overbuilt to standards not compatible with proper forest management. Unnecessarily high road costs result in a great number of timber sales becoming uneconomic. More realistic road standards will make more timber available at reduced cost. High road costs often move timber areas into the substandard classification.

We believe that the National Forests are not being managed to their full potential. This situation presents a most serious problem for the forest industries of the state. We recommend that a western alliance made up of all the western states be formed to deal specifically with this problem. Our timber economy depends on better management and we must work effectively for this change.



# Tourism

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No review of Montana's industries would be complete without a discussion of the importance of tourism and travel. Unfortunately, employment and income data are gathered in such a way that reliable information on this sector is extremely limited. Service and trade sector data are reported by type of economic activity and not by the type of customers served. For example, a restaurant serves both in-state as well as out-of-state residents, so it is difficult to determine whether the employment and income generated by such a firm is primary (serving non-residents) or derivative (serving the local economy). Receipts or expenditure estimates are, however, produced by the Montana Travel Promotion Unit of the Department of Highways. This information and an estimate of income generated by each sales dollar implies that the overall travel industry generates approximately 12,000 full and part-time jobs and about \$60 million in income. This makes tourism Montana's sixth largest basic, income-producing sector, well ahead of light manufacturing, primary metals, food products, and refining.

The tourism industry is particularly strong in terms of bringing out-of-state visitors into Montana, no doubt related to the unique natural attractions found in the state. Of the estimated \$387 million in total tourist expenditures in 1977, nearly two-thirds was made by non-residents.

Even though tourism is seasonal in nature and tourism-related jobs are relatively low paying, many chambers of commerce and business groups throughout the state believe that a boost in tourism would significantly boost the economy of their areas. If a portion of the state's travel promotion budget were allocated toward marketing Montana for Montanans, perhaps the total dollar volume attributed to tourism might rise even faster. Certainly the overall industry is likely to experience substantial growth in the future as national income and leisure time increase. Nevertheless, we believe that in-state promotion should become a major facet of Montana's efforts to foster growth in this industry.

The state's promotion of tourism, including the local development efforts by chambers of commerce, has often unduly emphasized the more popular and overcrowded areas such as Yellowstone and Glacier Park, Flathead Lake, etc. . . . Why not promote some of the more out-of-the-way places? The state has hundreds of areas which are excluded from the promotional literature, all of which offer excellent recreational opportunity for hiking, climbing, skiing, photography, fishing, and hunting. Many of these easily accessible areas offer a rare and valuable commodity, peace of mind.

Many new people are moving to Montana and many long-time Montana residents are not fully aware of all that this state has to offer. A good promotional program would indeed increase travel by these people.

Another consideration is that the price of gasoline will continue to rise and there is no end to inflation in sight. This may encourage people to take shorter trips and stay closer to home. A carefully considered in-state promotion program might go a long way toward encouraging Montanans to travel within their own state.

More travel by Montanans within Montana might encourage investments in some of our smaller rural towns in the form of new motels, restaurants, and other tourist-related facilities. This in turn would give a needed boost to local economies. While the jobs derived from this type of economic activity would be considered derivative, nonetheless, they might help supplement incomes in areas of seasonal employment.



## Recommendations

The Council recommends that the Montana Travel Promotion Unit develop a strong public relations campaign to promote more in-state travel by Montanans to some of the lesser known attractions that are very extensive throughout the state. It is believed that Montana broadcasters and the print media in Montana would strongly support such a program with free public service advertising.

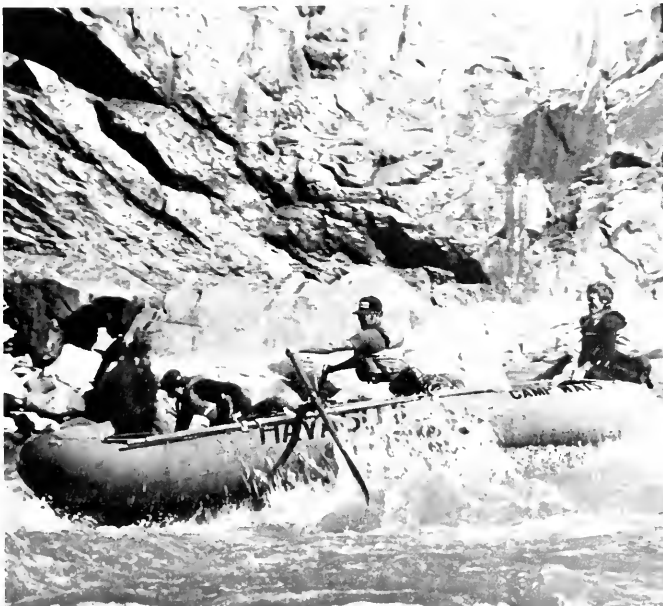
It is suggested that the Travel Promotion Unit also prepare a "Montanans See Montana" multimedia campaign with television commercials, radio commercials, print ads, feature stories, and photo releases in black and white and color for Montana publications. The cost of these promotions would involve production expense only. Because of the free advertising, budget expenditures would be minimal. These actions would go a long way toward ensuring an appropriate state investment in the viable local market. They also would help remedy the over-crowding in the more popular areas of the state.

We give our full support to efforts of the Old West Regional Commission and Travel Promotion Unit in carefully researching and developing new opportunities in this very important economic sector, a growth industry which is clean, desirable, and of great importance to our economy. We urge the Travel Promotion Unit to use all state and university facilities necessary to accurately measure the benefits of tourism in Montana, both in-state and out-of-state.

We also encourage a program for development of highway rest areas not located on the major interstate highways. Rest areas with tourist facilities developed on the outskirts of some of our smaller rural towns might help stimulate travel in these areas. The present network of highway rest stops encourages people to stay on the interstates rather than exit and travel through some of these towns bypassed for so long.

We also recommend that all State Travel Promotion Unit literature carry an environmental message advising that Montana features some of the most magnificent landscapes in the United States, which could be destroyed forever by carelessness with fires, off-road travel by vehicles, and littering. People should be made aware that Montana's mountain and prairie regions and clean streams are that way because Montanans care for their environment. Because we have been sensible enough to preserve our environment, it is there for other parts of the United States to enjoy.

*Tourism, Montana's new growth industry, is environmentally clean and as diverse as the appeal of the mountains, prairies and rivers in this, the nation's fourth largest state.*



*Photo courtesy of the Montana Travel Promotion Unit.*

# ***Conclusions***

**W**hat, then, is the direction of Montana's economy? Our individual efforts will determine our future. This will often involve painfully careful analysis and vigorously contested decisions if we are to grow in a balanced and reasonable way.

There will be many conflicts. We must strive for growth which maintains the level of environmental and social qualities desired by the people of this state. We must identify areas suitable for increased growth and activity, taking into consideration the existing economic base, availability of materials and energy, labor market factors, transportation, market demand, and environmental necessity. We should foster our renewable resources such as forests, water, wildlife, and agriculture under a concept of stewardship for future generations. If our alternatives are continually analyzed within the context of the "what" and "for whom" benchmarks, the overall welfare of our people will be enhanced.

In keeping with the goal of open government and a healthy business environment, let us all make our opinions known. We must work together.

# Appendix

STATE OF MONTANA  
Office of the Governor

## EXECUTIVE ORDER NO. 19-77

Executive Order establishing an economic development policy and creating a Council of Economic Advisors.

I, THOMAS L. JUDGE, in accordance with the authority vested in me as Governor by the laws and Constitution of the State of Montana, hereby set forth a policy of the executive branch regarding economic development in Montana and establish an advisory council to assist in the implementation of that policy.

In recognition of House Joint Resolution No. 55 of the 45th Montana Legislature, "A Joint Resolution of the Senate and the House of Representatives of the State of Montana Recognizing the Value of America's System of Free Enterprise and Encouraging the Vigorous Support of Business by the People, the Public School Systems, and the Government of the Great State of Montana," I hereby declare it to be the policy of the executive branch of the government of the State of Montana.

(1) to create a climate in which private enterprise in Montana can flourish;

(2) to preserve, protect, and foster the creation, development, and balanced growth of private enterprise in Montana;

(3) to recognize that private enterprise and entrepreneurship is essential to the preservation of the individual liberty and freedom of Montana's citizens; and

(4) to recognize that a healthy and prosperous business community with the benefits Montana's citizens derive thereby in terms of employment opportunities and in goods and services provided is essential to the well being of Montana's citizens.

I therefore direct all the parties of the executive branch of the State government of Montana, under the leadership and direction of the Office of Commerce and Small Business Development, to:

(1) engage in a vigorous program for the development of new business opportunities and the expansion of existing businesses, broadening the economic base in Montana and creating new job opportunities for Montanans and improving the quality of life in this State, while preserving and protecting the inalienable individual right to a clean and healthful environment; and

(2) insure that the full resources of the executive branch of the government of the State of Montana be utilized to the maximum possible extent in the furtherance of these policies.

II.

To assist in the formulation and attainment of the policies stated above, and pursuant to section 82A-110, R.C.M. 1947, I hereby create an advisory council to be known as the Governor's Council of Economic Advisors.

The Council shall serve at the pleasure of the Governor. The Council shall remain in existence until June 30, 1979, at which time its existence shall cease unless further extended by executive order of the Governor. The Council shall meet not less than six times each year on such dates and at such places as the Governor or the Chairman may specify.

The Council shall annually review the condition of Montana's economy and make recommendations to the Governor on the best use of the resources of the executive branch of the State of Montana to obtain the policies declared in this executive order. It will be the function of the Governor to execute and implement, through the appropriate agencies, such of the Council's findings and recommendations as he considers appropriate and in furtherance of these policies.

The Council may:

(1) conduct studies and draw upon the resources of the Governor's Office, the Office of Commerce and Small Business Development, the departments of the executive branch, the Montana University System, the private institutions of higher education, and the talents of the private economic sector of Montana including business, labor, agriculture, and all other groups and individuals in Montana willing and able to assist the Council in conducting the studies; and

(2) conduct hearings, workshops, seminars and meetings throughout the State to exchange information and views with respect to the most appropriate means of attaining the policies declared above.

The Council shall annually transmit to the Governor an economic report setting forth:

(1) the condition of Montana's economy;

(2) a review of the Council's activities for the year;

(3) a summary of its recommendations to the Governor with respect to the policies declared in this executive order;

(4) a summary of the Council's recommendations, if any, for legislation to be proposed by the executive branch to implement the policies declared in this executive order; and

(5) such other matters as the Council considers germane to its functions.

GIVEN under my hand and the GREAT SEAL of the State of Montana this thirteenth day of October, in the year of our Lord One Thousand Nine Hundred Seventy-seven.

(signed)

THOMAS L. JUDGE, Governor

(signed)

FRANK MURRAY, Secretary of State

## HOUSE JOINT RESOLUTION NO. 55

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA RECOGNIZING THE VALUE OF AMERICA'S SYSTEM OF FREE ENTERPRISE AND ENCOURAGING THE VIGOROUS SUPPORT OF BUSINESS BY THE PEOPLE, THE PUBLIC SCHOOL SYSTEM, AND THE GOVERNMENT OF THE GREAT STATE OF MONTANA.

WHEREAS, the American system of private enterprise has been the cornerstone of this nation's democratic form of government, has fortified individual personal freedoms, and has propelled the nation to a position of prosperity and equal opportunity; and

WHEREAS, the United States of America has experienced two centuries of progress achieving freedom, liberty, and equality and has achieved abundance for her people who enjoy a standard of living unequalled in the world; and

WHEREAS, small business and free enterprise are the corner stones of this progress and stand as a symbol of American character and spirit; and

WHEREAS, in this the beginning of our third century as a nation, it is fitting that we reflect upon those virtues and ideals that have preserved us as a nation, that have brought us to our present state, wherein the individual and individual opportunity count most with our countrymen; and

WHEREAS, if this nation is to preserve and maintain these freedoms and this heritage for the people, their children and future generations, we must assure that government does not become an impediment to the survival of the private enterprise system that America has worked so long and hard to achieve.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That we, the people of the great State of Montana, must sustain and continually improve a climate in which business can flourish, in order that this nation and state continue to flourish;

BE IT FURTHER RESOLVED that it is the sense of the people of the State of Montana that private enterprise and small business entrepreneurship are essential to the preservation of individual liberty and freedom for all our citizens;

BE IT FURTHER RESOLVED that a healthy and prosperous business community is essential to the economic and social well being of the state, now and in the future;

BE IT FURTHER RESOLVED that it shall be the declared policy of the people and the Legislature to preserve, protect, and foster the creation, development, and balanced growth of business in the state;

BE IT FURTHER RESOLVED that it shall be the policy of the Legislature that courses in economics and the private enterprise system shall be vigorously encouraged in Montana's public school system at all levels to insure the continued understanding, support, and improvement of this system for future generations.

BE IT FURTHER RESOLVED that it shall be the policy of the Legislature that all agencies, departments, and bureaus of the state government shall take all possible measures to foster and assist the business community, to help create favorable conditions for small businesses, and to take such other measures as may be appropriate to the interests of all businesses.

Approved March 19, 1977.

